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Financial Reforms and Performance in Emerging Market Economies

An Investigation of Global and Regional Integration of ASEAN Economic Community Stock Market: Dynamic Risk Decomposition Approach

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temporarily. Finally, international investors are able to significantly reduce unsystematic risk by adding an AEC market portfolio into their existing portfolios.

KEY WORDS:

AEC diversification dynamic risk decomposition market integration

Notes

1. The ASEAN is a political and economic organization of ten countries located in Southeast Asia, which was formed on August 8th 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam. As of 2014, the aggregated GDPs of NAFTA and EU are $20.5 and $18.5 trillion USD, respectively.

2. For the effect of common market on the regional economy, see Pagano (1993), Akdogan (1996, 1997), Levine and Zervos (1998), Levine (2002), Prasad et al. (2003), Baele et al. (2004), and Bartram, Taylor, and Wang (2007).

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4. See Al

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and in Brunei. For Cambodia and Laos, the history of the exchanges is too short, and the number of listed companies is very small (2 in Cambodia and 4 in Laos). For Vietnam, the market capitalization is relatively small (about 10 percent of Malaysia, of Thailand, and of Philippines, about 5 percent of Singapore and of Indonesia, and about 1.5 percent of the ASEAN major-5's total).

7. We performed the same test with different lags and without trends, and the results do not lead to any different conclusions. We employed automatic lag length selection using a Schwarz Information Criterion (SIC), and the maximum lag length is automatically determined by the lag length parameter methods proposed by Ng and Perron (2001). For the PP test, we used Newey-West (1994) data-based automatic bandwidth parameter methods for the kernel estimation in order to select the bandwidth.

8. T-GARCH or E-GARCH can be used for non-normal data series. However, Cappiello, Engle, and Sheppard (2006) suggest that any univariate GARCH process that is covariance stationary and assumes normally distributed errors (irrespective of the true error distribution) can be used to model the variances in DCC model and, therefore, the assumption of conditional normality is not crucial. In many cases, the basic GARCH conditional variance Equation (3) under normality provides a reasonably good model for analyzing financial time series and estimating conditional volatility (Zivot 2009). Nonethe model. However

9. See Be (2002), Phylaktis

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